

Maeser Water Improvement District
Uintah County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2006

Maeser Water Improvement District
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December 31, 2006

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CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants
92 North Vernal Avenue
Vernal, UT 84078
(435) 789-0961

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Maeser Water Improvement District
Maeser, Utah

We have audited the accompanying basic financial statements of the Maeser Water Improvement District, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of Maeser Water Improvement District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maeser Water Improvement District, as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2007 on our consideration of Maeser Water Improvement District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Maeser Water Improvement District's basic financial statements. The supplementary summary of impact fee collections is presented for purposes of additional analysis as required by the State of Utah and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Caldwell, Coombs & Foley, LLP

Vernal, Utah
August 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2006**

As management of Maeser Water Improvement District (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended December 31, 2006.

FINANCIAL HIGHLIGHTS

- * Total net assets for the District increased by \$322,645.
- * Total unrestricted net assets for the District decreased by \$127,237.
- * Total assets increased by \$98,625.
- * Total liabilities decreased by \$224,021.

BASIC FINANCIAL STATEMENTS

The District is a special-purpose government engaged in business-type activities. All transactions related to its activities are recorded in a single enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges.

The financial statements presented in this report are those required of an enterprise fund and consist of (1) the statement of net assets, (2) the statement of revenues, expenses, and changes in net assets, (3) the statement of cash flows, and (4) the notes to the financial statements.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. However, other non-financial factors need to be considered as well.

The statement of revenues, expenses, and changes in net assets (the income statement) presents information about the amounts of revenues, expenses, and resulting net income for the year. Net income is the change in net assets. All items of income and expense are reported as soon as the underlying event giving rise to those items occurs, regardless of the when cash is received or paid.

The statement of cash flows starts with the amounts of net income and removes the non-cash portion (the receivables and payables which did not provide or use cash), thus converting the amounts to a cash basis.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District.

Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2006

FINANCIAL ANALYSIS

Maeser Water Improvement District's Net Assets

	Current Year	Previous Year	Change
Current and other assets	\$ 4,763,707	4,729,702	34,005
Capital assets	<u>5,289,163</u>	<u>5,224,543</u>	<u>64,620</u>
Total assets	<u>\$10,052,870</u>	<u>9,954,245</u>	<u>98,624</u>
Long-term liabilities	\$ 872,962	1,040,276	(167,314)
Other liabilities	<u>471,442</u>	<u>528,148</u>	<u>(56,706)</u>
Total liabilities	<u>\$ 1,344,403</u>	<u>1,568,424</u>	<u>(224,021)</u>
Net assets:			
Invested in fixed assets, net of debt	\$ 4,248,887	3,940,190	308,697
Restricted	<u>852,590</u>	<u>711,405</u>	<u>141,185</u>
Unrestricted	<u>3,606,989</u>	<u>3,734,226</u>	<u>(127,237)</u>
Total net assets	<u>\$ 8,708,466</u>	<u>8,385,821</u>	<u>322,645</u>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Assets exceeded liabilities at the close of the year by \$8,708,466, an increase from the previous year of \$322,645.

Total unrestricted net assets at the end of the year are \$3,606,989, which represents a decrease of \$127,237 from the previous year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amount of current and other assets due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2006

FINANCIAL ANALYSIS (continued)

Maeser Water Improvement District's Changes in Net Assets			
	<u>Current Year</u>	<u>Previous Year</u>	<u>Change</u>
Operating income:			
Service income	\$631,412	549,373	82,040
Other operating income	<u>57,474</u>	<u>28,012</u>	<u>29,462</u>
Total operating income	<u>688,886</u>	<u>577,385</u>	<u>111,501</u>
Operating expenses:			
Depreciation expense	224,895	228,490	(3,595)
Other operating expense	<u>557,739</u>	<u>519,531</u>	<u>38,208</u>
Total operating expense	<u>782,634</u>	<u>748,021</u>	<u>34,613</u>
Net operating income (loss)	<u>(93,748)</u>	<u>(170,636)</u>	<u>76,888</u>
Non-operating items:			
Revenues	443,956	358,799	85,158
Expenses	<u>(27,563)</u>	<u>(30,047)</u>	<u>2,484</u>
Total net non-operating items	<u>416,393</u>	<u>328,752</u>	<u>87,641</u>
Net income (loss)	<u>\$322,645</u>	<u>158,116</u>	<u>164,529</u>

Service income increased by \$82,040 over the previous year. Other operating income increased by \$29,462.

Depreciation expense is the largest single element of operating costs and decreased over the amount of the previous year by \$3,595. Other operating expenses increased by \$38,208 compared to the previous year, resulting in a yearly net operating loss of \$93,748.

Non-operating items increased by \$87,641 compared to the previous year. Increases in the amount of impact fees accounted for \$36,400 of the increase, while increased interest earnings accounted for another \$19,801. The majority of the remaining increase is attributable to a gain on disposal of assets that amounted to \$25,600.

Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2006

BUDGETARY HIGHLIGHTS

The District operates as an enterprise fund, and is required to comply with the operating budget on an entity-wide basis. Grant revenue was budgeted in the amount of \$1,000,000 which did not materialize. However, other revenues received exceeded the amount budgeted in the amount of \$161,620. Actual expenses exceeded the amount budgeted by \$183,579.

CAPITAL ASSET AND DEBT ADMINISTRATION

Maeser Water Improvement District's Capital Assets
(net of depreciation)

	Current <u>Year</u>	Previous <u>Year</u>
Net Capital Assets:		
Land and rights of way	\$ 112,935	112,935
Water rights	20,682	20,682
Buildings and structures	111,114	112,774
Water and sewer system facilities	4,534,445	4,690,981
Machinery and equipment	235,854	146,717
Construction in progress	<u>274,133</u>	<u>140,454</u>
Total	<u>\$5,289,163</u>	<u>5,224,543</u>

There was little change in capital assets during the year. Additional information may be found in the notes to financial statements.

Maeser Water Improvement District's Outstanding Debt
Revenue Bonds

	Current <u>Year</u>	Previous <u>Year</u>
Water:		
38-3180	\$ 150,250	180,300
83-3064	72,000	90,000
83-3180	193,057	236,239
83-3260	33,013	40,397
B-5030	27,767	34,058
B3-3180	100,000	125,000
Sewer:		
2001 A	300,000	314,000
2001 B	92,400	96,300
83-3230	<u>71,790</u>	<u>87,847</u>
Total	<u>\$1,040,276</u>	<u>1,204,141</u>

Principal was repaid on the bonds in the total amount of \$163,865. Additional information regarding the long-term liabilities may be found in the notes to the financial statements.

**Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2006**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A huge rate of growth continuing into the next year is one of the significant economic factors that could affect the District. This may result in increases in service rates. Budgets, however, have been set using the same rates as existed during the current year being reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Maeser Water Improvement District, Attn. Harry Miyoshi, (435)789-2353.

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BASIC FINANCIAL STATEMENTS

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Maeser Water Improvement District
STATEMENT OF NET ASSETS
December 31, 2006

ASSETS

Current Assets:

Cash and cash equivalents	\$ 589,019
Accounts receivable, net	59,675
Prepaid assets	<u>14,104</u>
Total current assets	<u>662,798</u>

Non-current assets:

Restricted cash and cash equivalents	1,064,193
Long-term cash deposits	1,102,126
Capital assets:	
Not depreciated	407,750
Being depreciated	9,606,205
Less accumulated depreciation	<u>(4,724,792)</u>
Other non-current assets:	
Investment in joint venture	<u>1,934,589</u>
Total non-current assets	<u>9,390,071</u>

Total assets **\$10,052,870**

LIABILITIES

Current Liabilities:

Accounts payable	\$ 120,207
Deferred revenues	183,920
Revenue bonds, current portion	<u>167,314</u>
Total current liabilities	<u>471,442</u>

Non-current liabilities:

Revenue bonds, long-term	<u>872,962</u>
Total non-current liabilities	<u>872,962</u>

Total liabilities **1,344,403**

NET ASSETS

Invested in capital assets, net of related debt	4,248,887
Restricted for:	
Sinking fund	86,139
Reserve fund	31,953
Impact fee reserve	559,597
Construction reserve	<u>174,901</u>
Unrestricted	<u>3,606,989</u>
Total net assets	<u>8,708,466</u>

Total liabilities and net assets **\$10,052,870**

The notes to the financial statements are an integral part of this statement.

Maeser Water Improvement District
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2006

OPERATING REVENUES

Charges for services - water	\$ 357,061
Charges for services - sewer	274,351
Initial connection fees - water	38,650
Initial connection fees - sewer	15,750
Other operating revenues	<u>3,074</u>

Total operating revenues	<u>688,886</u>
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OPERATING EXPENSES

Operations and maintenance - water	182,685
Operations and maintenance - sewer	97,735
Water treatment	42,700
Sewer treatment	133,321
Administrative expense	101,298
Depreciation expense - water	89,821
Depreciation expense - sewer	96,541
Depreciation expense - general	<u>38,532</u>

Total operating expense	<u>782,634</u>
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Net income (loss) from operations	<u>(93,748)</u>
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NON-OPERATING REVENUE (EXPENSE)

Interest income	104,525
Property tax revenue	71,393
Impact fees	236,350
Grant revenue	6,089
Gain (loss) on retirement of assets	25,600
Interest expense	<u>(27,563)</u>

Total non-operating revenue (expense)	<u>416,393</u>
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Net income (loss)	<u>322,645</u>
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Net assets, beginning	<u>8,385,821</u>
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Net assets, ending	<u>\$8,708,466</u>
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The notes to the financial statements are an integral part of this statement.

Maeser Water Improvement District
STATEMENT OF CASH FLOWS
For the year ending December 31, 2006

Cash flows from operating activities:	
Cash received from customers - service	\$ 680,419
Cash paid suppliers	(311,696)
Cash paid to employees	<u>(217,203)</u>
Net cash provided (used) in operating activities	<u>151,521</u>
Cash flows from noncapital financing activities:	
Property tax received	68,609
Change in customer deposits	<u>(259)</u>
Net cash provided (used) in noncapital financing activities	<u>68,350</u>
Cash flows from capital and related financing activities:	
Cash received from capital grants	-
Cash from impact fees	236,350
Cash payments for construction and acquisition of plant	(344,127)
Cash payments for long-term debt principal	(163,865)
Cash payments for long-term debt interest	<u>(28,112)</u>
Net cash provided (used) in capital and related financing activities	<u>(299,753)</u>
Cash flows from investing activities:	
Cash received from interest earned	106,900
Change in long-term cash deposits	<u>(35,816)</u>
Net cash provided (used) in investing activities	<u>71,084</u>
Net increase (decrease) in cash	(8,799)
Cash balance, beginning	<u>1,662,012</u>
Cash balance, ending	<u>\$1,653,212</u>
Cash reported on the balance sheet:	
Cash and cash equivalents	\$ 589,019
Non-current restricted cash	<u>1,064,193</u>
Total cash and cash equivalents	<u>\$1,653,212</u>

Continued on next page

The notes to the financial statements are an integral part of this statement.

Maeser Water Improvement District
STATEMENT OF CASH FLOWS, continued
For the year ended December 31, 2006

**Reconciliation of Operating Income
to Net Cash Provided from Operating Activity:**

Net operating income (expense)	\$ (93,748)
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities	
Depreciation and amortization	224,895
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(8,466)
(Increase) decrease in inventory	-
(Increase) decrease in prepaid expense	1,888
Increase (decrease) in accounts payable - operations	<u>26,953</u>
Net cash provided in operating activity	<u>\$151,521</u>

The notes to the financial statements are an integral part of this statement.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Maeser Water Improvement District (the District) is a special district, located in Uintah County, Utah, organized for the purpose of providing culinary water service to the residents of the District. The District operates under the direction of a five member Board of Trustees. All Trustees are elected by the residents of the District.

The District has no component units and is not a component unit of another entity.

1-B. Government-wide financial statements

Government-wide financial statements display information about the District as a whole. The financial statements presented are those required of an enterprise fund and consist of the statement of net assets, the statement of revenues, expenses, and changes in net assets and the statement of cash flows. The District is considered a special-purpose government engaged in business-type activities and records all of the transactions related to its activities in a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges. No fiduciary funds or components that are fiduciary in nature are included.

1-C. Measurement focus, basis of accounting, and financial statement presentation

Measurement focus is commonly used to describe the types of transactions and events that are reported in a fund's operating statement. The operating statement of an enterprise fund focuses on changes in, or the flow of, *economic* resources. With this measurement focus, all assets and liabilities associated with the operation of the fund, both current and non-current, are included on the statement of net assets. Thus, net assets (total assets less total liabilities) are used as a practical measure of economic resources.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. As a practical matter, a fund's basis of accounting is inseparably tied to its measurement focus. Funds that focus on total economic resources employ the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs. Under accrual accounting, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

1-C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. The District also recognizes the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

1-D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and the State Treasurer's Investment Fund.

Investments for the District are reported at fair value. The State Treasurer's Investment Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the value of the pool shares.

2. Receivables and payables

Monthly reviews are made of all past due accounts. Shut-off notices are issued on past due active accounts and the District has lien capability on unpaid accounts. Customer accounts are reported net of an allowance for uncollectible accounts. The allowance amount is estimated based upon accounts receivable that are past due.

Property taxes are collected by Uintah County for the District. Taxes are levied as of January 1 on property values assessed as of the same date and are due November 30 of the year of assessment. All property tax receivables are considered collectible.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

1-D. Assets, liabilities, and net assets or equity (continued)

3. Inventories and prepaid items

Inventories are valued at cost using the first-in / first-out method. The inventory consists of pipes, fittings and pumps used in the operation of the District.

At various times, certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted assets

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

5. Capital assets

All purchased capital assets, which include property, plant, and equipment, are carried at cost or estimated historical cost. Contributed capital assets are valued at estimated fair market value on the date received. Capital assets are defined as items with an initial, individual cost of more than \$750 and an expected life of more than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Interest incurred during the construction phase of capital assets, if directly related to the construction, is included as part of the capitalized amount of the assets constructed. There was no interest capitalized during the current year.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Water system	40-50
Buildings	15-40
Equipment	7-8
Vehicles	5
Office equipment	5

6. Compensated absences

The District's policy regarding vacation leave and sick leave is such that no liability for compensated absences carries over from one year to the next. Thus, no liability for compensated absences exists at year end.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

1-D. Assets, liabilities, and net assets or equity (continued)

7. Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

8. Equity

The difference between total assets and total liabilities represents equity or net assets. Net assets presented in the statement of net assets are subdivided into three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

9. Rounding in financial statements

All amounts in the financial statements have been rounded to the nearest whole dollar. As a result, in some instances the sum of the detail amounts displayed may differ by \$1 from totals appearing in the financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A. Budgetary information

An annual operating budget is adopted by the District's board of trustees, on a basis consistent with generally accepted accounting principles, and as prescribed by state regulation. The budget is adopted prior to the beginning of the year to which it applies after a public hearing has been held. Subsequent amendments to the operating budget may be made after a public hearing.

A capital budget is also adopted by the board of trustees which identifies planned capital asset additions and requirements for long-term debt service principal payments, as well as the plan for financing these items.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of December 31, 2006 consist of the following:

	<u>Fair Value</u>
Demand deposits - checking	\$ 181,042
Savings accounts and time certificates	1,126,309
Investments - PTIF	<u>1,447,988</u>
Total cash and investments	<u>\$2,755,338</u>

Cash and investments listed above are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 589,019
Restricted cash and cash equivalents	<u>1,064,193</u>
Total cash and cash equivalents	1,653,212
Long-term cash deposits	<u>1,102,126</u>
Total cash and investments	<u>\$2,755,338</u>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that city funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The District maintains monies not immediately needed for expenditure in the PTIF as well as certificates of deposit in national banks.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

3-A. Deposits and investments (continued)

Deposit and Investment Risk

The District maintains no investment policy containing any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The District's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the District are available immediately except for the long-term certificates of deposit.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. At December 31, 2006, \$967,195 of the District's demand and savings deposits was uninsured and uncollateralized.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

Accounts not expected to be collected within one year are captioned as non-current receivables. Accounts receivable are shown on the financial statements as follows:

Property taxes receivable	\$ 4,237
Current customer accounts receivable	58,435
Less allowance for doubtful accounts	<u>(2,996)</u>
Net accounts receivable	<u>\$59,675</u>

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

3-C. Capital Assets

A summary of capital asset activity is listed below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 112,935	-	-	112,935
Water rights / stock	20,682	-	-	20,682
Construction in progress	<u>140,454</u>	<u>133,679</u>	<u>-</u>	<u>274,133</u>
Total capital assets, not depreciated	<u>274,071</u>	<u>133,679</u>	<u>-</u>	<u>407,750</u>
Capital assets, being depreciated:				
Water system	4,184,693	28,956	-	4,213,649
Sewer system	4,827,070	-	-	4,827,070
Buildings and structures	185,987	4,450	-	190,437
Equipment	<u>311,173</u>	<u>122,425</u>	<u>58,550</u>	<u>375,048</u>
Total capital assets being depreciated	<u>9,508,923</u>	<u>155,832</u>	<u>58,550</u>	<u>9,606,205</u>
Less accumulated depreciation for:				
Water system	2,401,796	88,951	-	2,490,748
Sewer system	1,918,985	96,541	-	2,015,527
Buildings and structures	73,213	6,110	-	79,324
Equipment	<u>164,456</u>	<u>33,288</u>	<u>58,550</u>	<u>139,194</u>
Total accumulated depreciation	<u>4,558,451</u>	<u>224,891</u>	<u>58,550</u>	<u>4,724,792</u>
Capital assets being depreciated, net	<u>4,950,472</u>	<u>(69,059)</u>	<u>-</u>	<u>4,881,413</u>
Capital assets, net	<u>\$5,224,543</u>	<u>64,620</u>	<u>-</u>	<u>5,289,163</u>

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

3-D. Long-term debt

Long-term debt activity for the year was as follows:

	<u>Original Principal</u>	<u>% Rate</u>	<u>12/31/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2006</u>	<u>Due Within One Year</u>
Water fund:							
83-3230	\$119,700	4.50	\$ 40,557	-	7,384	33,013	7,717
B-5030	104,000	4.00	34,058	-	6,290	27,767	6,542
83-3064	360,000	-	90,000	-	18,000	72,000	18,000
38-3180	601,000	-	180,300	-	30,050	150,250	30,050
83-3180	700,000	4.50	236,239	-	43,183	193,057	45,125
B3-3180	300,000	-	125,000	-	25,000	100,000	25,000
Sewer fund:							
83-3230	260,300	4.50	87,847	-	16,058	71,789	16,780
2001 A	327,245	2.50	314,000	-	14,000	300,000	14,000
2001 B	100,000	2.50	<u>96,300</u>	<u>-</u>	<u>3,900</u>	<u>92,400</u>	<u>4,100</u>
Total long-term liabilities			<u>\$1,204,141</u>	<u>-</u>	<u>163,865</u>	<u>1,040,276</u>	<u>167,314</u>

All bonds are revenue bonds secured by the revenues of the water and/or sewer system. Bonds were issued to finance the construction of the water and sewer systems.

Revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 167,314	24,324	191,639
2008	170,809	20,477	191,286
2009	174,455	16,476	190,931
2010	178,348	12,314	190,661
2011	48,650	7,983	56,633
2012-2016	99,500	32,648	132,148
2017-2021	114,800	19,568	134,368
2022-2026	<u>86,400</u>	<u>5,178</u>	<u>91,577</u>
Total	<u>\$1,040,276</u>	<u>138,966</u>	<u>1,179,243</u>

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

3-E. Restricted assets

Certain amounts have been restricted as to usage, generally for debt service, and construction and acquisition of capital assets. Reservations of net assets have been made in similar amounts. A list of restricted assets follows:

PTIF Sinking fund	\$ 86,139
PTIF Reserve fund	31,953
Impact fee reserve	559,597
Construction deposits	24,183
Customer deposits	3,500
Construction funds	<u>358,821</u>
Total restricted assets	<u>\$1,064,193</u>

NOTE 4 - OTHER INFORMATION

4-B. Employee pension and other benefit plans

Plan Description:

The District contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) for employers with (without) Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

The District is required to contribute a percent of covered salary to the following system: 11.09% until June 30, 2006 and 11.59% thereafter to the Noncontributory System. The contribution rate is the actuarially determined rate and is approved by the Board as authorized by Chapter 49.

The District's contributions for the year ending December 31, 2006, 2005, and 2004 for the Noncontributory System were, respectively, \$15,864, \$14,308, and \$13,014. The contributions were equal to the required contributions for each year.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

4-B. Operating Leases

The District, in 2001, paid \$7,700.00 for a 40 year lease on the site of a water tank. \$400.00 was applicable to the year 2001 and the remaining amount is amortized over the 40 year period.

4-C. Investment in joint venture – Ashley Valley Sewer Management Board

Other non-current assets on the District's balance sheet is the cumulative investment in the Ashley valley Sewer Management Board (AVSMB), which operates a sewer treatment facility and major sewer collection lines, serves Maeser Water Improvement District, Ashley Valley Water and Sewer Improvement District, and Vernal City. The investment represents and ownership interest in the sewer treatment facility. AVSMB funds its current operations from service fees charged to the three participating entities. For the calendar year 2006 Maeser Water Improvement District paid service fees in the amount of \$133,321 including \$33,845 payable at December 31, 2006. AVSMB has received significant government grants and loans for funding its capital improvements. Annual financial statements for AVSMB may be obtained from its office at P.O. Box 426, Vernal, UT 84078.

4-D. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters. The District participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The District is subject to a minimal deduction for claims. There have been no significant reductions in insurance coverage compared to the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

4-E. Commitments As of December 31, 2006 the District had the following commitments:

By contract dated December 16, 1958 the District contracted with the Uintah Water Conservancy District for the allotment of 200 acre-feet of water annually from the Vernal Unit of the Central Utah Project. The District is billed annually for its proportionate share of operation and maintenance expenses. Its share of operation and maintenance expenses for 2006 totaled \$2,000.

The District entered into a contract with the Uintah Water Conservancy District (UWCD) wherein the District agreed to reimburse UWCD its proportionate share of loan repayment and reserve costs associated with the Tyzack Aqueduct Reach #3. Annual payments of \$2,586 began in 2000 and continue for twenty years.

The District entered into an Interlocal Agreement, dated January 30, 2004, with Uintah Water Conservancy District and other local municipal water agencies, wherein the District agreed to lease 25% of two million gallons storage capacity in a water storage tank with payments beginning January 1, 2006 and extending until January 1, 2025. Annual payments vary between \$4,613 and \$4,906. The 2006 payment was \$4,800.

The District entered into a contract for engineering services associated with a Hydrologic Evaluation, Source Development, & Water System Master Plan Project, dated March 28, 2005. Total estimated costs of the contract are \$106,988. Through December 31, 2006 costs incurred totaled \$23,213, leaving a balance of \$83,775.

SUPPLEMENTARY INFORMATION

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Maeser Water Improvement District
Supplementary Information
December 31, 2006

Summary of Impact Fee Collections

The District collects water and sewer impact fees. During the year ended December 31, 2006 water impact fees were collected in the amount of \$143,350 and sewer impact fees were collected in the amount of \$93,000. These fees are being applied to water and sewer utility plant construction and bond payments. The District's plan is to expend impact fee collections for water or sewer utility plant construction and bond payments which relate to the impact fee.

At year end, there were water impact fees of \$389,877 and sewer impact fees of \$169,721 which had not been applied to utility plant construction or construction bond payments.

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OTHER REPORTS

CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants

92 North Vernal Avenue

Vernal, UT 84078

(435) 789-0961

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Maeser Water Improvement District
Maeser, Utah

We have audited the basic financial statements of Maeser Water Improvement District, as of and for the year ended December 31, 2006, and have issued our report thereon dated August 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Maeser Water Improvement District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Maeser Water Improvement District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. See finding 06-1.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the findings described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maeser Water Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of auditors' findings and recommendations as item 06-2.

This report is intended solely for the information of the Board of Trustees, management, others within the organization, and the Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Caldwell, Coombs & Foley, LLP

Vernal, Utah

August 30, 2007

CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants
92 North Vernal Avenue
Vernal, UT 84078
(435) 789-0961

**INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
CONDUCTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Maeser Water Improvement District
Maeser, Utah

We have audited the basic financial statements of Maeser Water Improvement District as of and for the year ended December 31, 2006, and have issued our report thereon dated August 30, 2007. The District received the following nonmajor grant, which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of the District's financial statements.)

Community Impact Grants (Department of Community and Economic Development)

Our audit included test work on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Cash Management
Purchasing Requirements	Budgetary Compliance
Truth in Taxation and Property Tax Limitations	Special Districts
Other General Compliance Issues	Impact Fees

The District did not receive any major State grants during the year ended December 31, 2006.

The management of Maeser Water Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of auditors' findings and recommendations as items 06-3 through 06-4.

In our opinion, except for the issues regarding impact fees described in the accompanying schedule of auditors' findings and recommendations as item 06-2, Maeser Water Improvement District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Caldwell, Coombs & Foley, LLP

Vernal, Utah

August 30, 2007

Maeser Water Improvement District
Auditors' Findings and Responses
For the Year Ended December 31, 2006

INTERNAL CONTROL

06-1. Purchasing Policy (Repeated 05-2)

Finding – We noted that the District has adopted the State of Utah's purchasing policy. The procedures followed by the District differ from those in the policy in several instances.

Effect – The State of Utah's policy was designed for a larger organization. The practices followed by the District do not comply with the policy's procedures.

Recommendation – We recommend that the District adopt a purchasing policy designed for organizations similar in size and type of operation.

District Response – The board of trustees is considering a new purchasing policy.

COMPLIANCE

06-2. Impact Fees (Repeated 05-3)

Finding – We noted that the District imposes impact fees with each water and sewer connection. However, we were not able to obtain copies of the impact fee plans. We noted the District had not prepared the annual reports required by statute. The District has established separate deposit accounts to hold impact fees, however procedures are not in place to reconcile amounts transferred into the accounts with the fees collected as reported in the financial accounting system, or to record expenditure of impact fees for allowable costs.

Criteria – The *Impact Fees Act*, Title 11, Chapter 36 of the *Utah Code* sets out the requirements for imposing impact fees.

Effect – The District was unable to demonstrate compliance with the *Impact Fees Act*.

Recommendation – Management should become familiar with the provisions of the *Impact Fees Act* and should implement appropriate procedures to insure the District's compliance with the law.

District Response – We will implement the recommendation.

Maeser Water Improvement District
Auditors' Findings and Responses
For the Year Ended December 31, 2006

06-3. Budget (Repeated 05-4)

Finding – We noted that expenditures exceeded budget appropriations.

Criteria – Section 17A-1-417 of the *Utah Code* states that officers and employees of the District shall not incur expenditures in excess of the total appropriation for any fund. The budget did not provide for depreciation expense.

Effect – District employees incurred expenses in excess of the amount legally allowed by the budget.

Recommendation – The Board of Trustees should include depreciation expense in the adopted budget. Management should carefully monitor actual expenditures and the budget should be opened and amended as provided in the law as needed to cover necessary expenditures.

District Response – We will implement the recommendations. The 2007 budget includes depreciation.

06-4. Property Tax Procedures (Repeated 05-5)

Finding – We noted the amount budgeted for property tax revenue did not equal the amount reported on Form PT-250-SSD, *Tax Rate Summary*.

Criteria – The Utah State Tax Commission requires the filing of form TC-693 *Tax Rate Summary*. The form includes a column "Budgeted Revenue." The amounts in that column should be the same as the revenue amounts in the adopted budget.

Recommendation – We suggest that the amount budgeted for property taxes should be amended as necessary to agree with the amount reported on form TC-693.

District Response – We will implement the recommendations.

Maeser Water Improvement District
Status of Prior Year Findings
For the Year Ended December 31, 2006

The following matters were reported as audit findings in the prior year. The current status of each finding and recommendation is noted.

INTERNAL CONTROL

05-1. Signing Blank Checks

Finding – We noted that the treasurer normally signs enough blank checks to pay the bills authorized by the board of trustees in its monthly meeting, plus enough additional blank checks to cover any additional bills and payrolls that need to be paid prior to the next monthly board meeting. Two signatures are required on checks, typically those of the treasurer and the clerk.

Recommendation – We recommend that checks for the bills to be presented to the board of trustees in its monthly meeting be printed before the meeting so that the treasurer can sign the checks upon approval by the board. When bills or payrolls need to be paid between meetings arrangements should be made for the treasurer to review and sign the checks after they have been prepared. In no instance should blank checks be signed.

Current Status – The recommendation was implemented.

05-2. Purchasing Policy

Finding – We noted that the District has adopted the State of Utah's purchasing policy. The procedures followed by the District differ from those in the policy in several instances.

Recommendation – We recommend that the District adopt a purchasing policy designed for organizations similar in size and type of operation.

Current Status – A new purchasing policy is under consideration.

COMPLIANCE

05-3. Impact Fees

Finding – We noted that the District imposes impact fees with each water and sewer connection. However, we were not able to obtain copies of the capital facilities plans or impact fee written analysis. We noted the District had not prepared the annual reports

Maeser Water Improvement District
Status of Prior Year Findings
For the Year Ended December 31, 2006

required by statute. The District has established separate deposit accounts to hold impact fees, however procedures are not in place to reconcile amounts transferred into the accounts with the fees collected as reported in the financial accounting system, or to record expenditure of impact fees for allowable costs.

Recommendation – Management should become familiar with the provisions of the *Impact Fees Act* and should implement appropriate procedures to insure the District's compliance with the law.

Current Status – No change. The finding is repeated.

05-4. Budget

Finding – We noted that expenditures exceeded budget appropriations. We noted that budgets were adopted by a motion and vote of the board of trustees; however no resolution was adopted. We also noted that budget amounts entered into the District's accounting system were incomplete.

Criteria – Section 17A-1-417 of the *Utah Code* states that the governing body shall by resolution adopt a budget for the ensuing fiscal year for each fund for which a budget is required. The law further states that officers and employees of the District shall not incur expenditures in excess of the total appropriation for any fund.

Effect – District employees incurred expenses in excess of the amount legally allowed by the budget. The District's procedures for adopting budgets did not completely comply with the statute. And the District's financial reports provided an incomplete picture of the budget and how actual expenditures compared to it.

Recommendation – The Board of Trustees should add the formality of a budget resolution to its budget adoption procedures. Budgeted amounts should be included in the District's financial system so that reports provide an accurate picture. Management should carefully monitor actual expenditures and the budget should be opened and amended as provided in the law as needed to cover necessary expenditures.

Current Status – Partially implemented. The Trustees adopted the budget by resolution and the complete budget was added to the financial reporting system.

05-5. Property Tax Procedures

Maeser Water Improvement District
Status of Prior Year Findings
For the Year Ended December 31, 2006

Finding – We noted the amount budgeted for property tax revenue did not equal the amount reported on Form PT-250-SSD, *Tax Rate Summary*.

Recommendation – We suggest that the amount budgeted for property taxes should be amended as necessary to agree with the amount reported on form TC-693.

Current Status – No change.

05-6. Nepotism

Finding – We noted that a son of one of the board of trustees was employed by the District in a temporary position.

Recommendation – Management should become familiar with the provisions of the Nepotism Act and should implement appropriate procedures to insure the District's compliance with the law.

Current Status – The recommendation was implemented.

05-7. Personnel Policy

Finding – We noted that the District uses a personnel policy obtained from another entity. The policy has not been updated for several years.

Recommendation – The District should adopt a personnel policy customized to the district's needs that satisfies the requirements of the State law.

District Response – A new personnel policy was adopted in May 2007.